

PUBLIC DISCLOSURE

MARCH 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HOMETOWN BANK, A CO-OPERATIVE BANK

218 MAIN STREET
WEBSTER, MA 01570-2258

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **HOMETOWN BANK, A CO-OPERATIVE BANK (HOMETOWN BANK)** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **MARCH 29, 2002**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated " Satisfactory".

Hometown Bank's overall CRA rating is based upon its performance under the five criteria contained herein as well as the bank's community development lending. The following is a summarization of the findings that were utilized in formulating the bank's overall CRA rating:

Distribution of Credit among Different Income Levels –The bank has achieved an adequate distribution of HMDA-reportable loans to individuals of low and moderate-income, given the demographics of the bank's assessment area.

Geographic Distribution of Loans – The bank has demonstrated a reasonable penetration of HMDA-reportable loans in the three moderate-income census tracts in the bank's assessment area.

Comparison Of Credit Extended Inside And Outside Of The Assessment Area (S)
For the period reviewed, a majority of the bank's loans came from inside its assessment area.

Loan to Deposit Analysis –The bank has demonstrated a reasonable average net loan to total deposit ratio and reasonable ratios over an eight-quarter period.

Review of Complaints/Fair Lending Policies and Practices - Fair lending policies and practices are considered reasonable. No weight was given to a review of complaints, as none have been received since the prior examination.

Community Development Lending: Consideration was also given to the bank's community development lending which was found to demonstrate the bank's willingness to lend for the economic benefit of its assessment area.

PERFORMANCE CONTEXT

Description of Institution

Hometown Bank, A Co-operative Bank (Hometown Bank) is a state chartered mutual bank whose main office is located in Webster, Massachusetts. Chartered in 1889 as Webster Co-operative Bank, the bank changed its name to Hometown Bank in January 1998. In addition to its main office location, in June 2000, the bank opened a full service branch and corporate headquarters at 31 Sutton Avenue in Oxford, Massachusetts. In September 2001, the bank also opened a full-service branch office at 331 Main Street in Sturbridge, Massachusetts.

As of December 31, 2001, the bank had \$98,532,000 in total assets. Of these assets, \$67,540,000 or 68.6 percent were in the form of loans (net). The following table depicts Hometown Bank's loan portfolio composition based on its December 2001 FDIC Call Report.

Hometown Bank's Loan Portfolio as of December 31, 2001	
Type of Loans	% of Total Loans
Construction & Land Development	4.3
Residential Real Estate	
a. 1-4 Family Mortgages	44.9
b. Home Equity Lines (includes second mortgages)	8.6
Multifamily	1.3
Commercial Loans	
a. Commercial Real Estate	27.1
b. Commercial & Industrial Loans	7.3
c. Agricultural Loans	0.0
Consumer Loans	
a. Credit Cards & Related Plans	0.0
b. Loans to Individuals	6.5
Total Loans	100.0

Source: FDIC Call Report, 12/31/01

As indicated above, overall residential lending represents the majority of the bank's portfolio at 54.8 percent. The second largest segment of the loan portfolio is overall commercial lending at 34.4 percent.

As a portfolio mortgage lender, Hometown Bank offers 1 year, 3 year, 7/1 and 4/1 Adjustable Rate Mortgages (ARMs), as well as 15 and 30-year fixed-rate mortgage loans. In addition, the bank offers a 5/1 First-Time Homebuyer product. The maximum loan to value ratio (LTV) for mortgage products is 95 percent, with private mortgage insurance required for LTV's over 80 percent. All fixed-rate mortgage loan applications are underwritten to the Federal Home Loan Mortgage Corporation's (FHLMC's) standards in order to provide the bank with the option to sell said loans in the secondary market.

Hometown Bank continues to be a Small Business Administration (SBA) lender, and in recent years has become more active in utilizing SBA programs. The bank is approved under the SBA's 7A and 504 Programs. As such, the bank is allowed to offer SBA guaranteed Low Doc loans, Working Capital loans, loans under the Veteran's Guaranty Program, and Women's Prequalification Pilot Program loans.

A review of an internally generated "Report of Closed Loans" reflects the growth in the bank's residential, commercial mortgage, and business loans from year-end 2000 to year-end 2001. During that time, the bank's residential mortgages grew by 116.7 percent in number and 127.6 percent in dollar volume. Commercial mortgages grew by 17.2 percent in number and 25.0 percent in dollar volume. Business loans grew by 40.6 percent in number and 154.0 percent in dollar volume.

Last, according to the SBA's Massachusetts Loan Volume Report, Hometown Bank ranked 20th with 7 SBA loans totaling \$1,275,850. This report covered the period October 1, 2001, through March 31, 2002.

There appears to be no legal or regulatory impediment that would effect the bank in meeting the needs of its community. The FDIC conducted the previous Community Reinvestment Act (CRA) evaluation as of December 7, 1998. That examination resulted in a "Satisfactory" rating. The Division of Banks last conducted a CRA performance evaluation on April 21, 1998. That evaluation also resulted in a "Satisfactory" rating.

Description of Assessment Area

The CRA regulation requires a financial institution to identify an assessment area in which it intends to focus its lending efforts. The bank has delineated the towns of Dudley, Oxford, Sturbridge and Webster as its assessment area. All four communities are located in Worcester County and fall within the Worcester, MA-CT Metropolitan Statistical Area (MSA). The 2000 and 2001 HUD estimated Median Family Income for the Worcester MSA was \$54,400 and \$57,000, respectively.

Hometown Bank's assessment area contains nine census tracts. Of those tracts, three are moderate-income and six are middle-income. The following table reflects selected housing

characteristics, based upon 1990 census data, for each of the census tract income groupings in Hometown Bank's assessment area.

Table 2 - Selected Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Percentage						Median Home Value (\$)
	Census Tracts %	Households %	Housing Units %	Owner-Occupied %	Rental Units %	Vacant Units %	
Moderate	33.3	25.7	25.2	15.4	44.1	22.3	110,417
Middle	66.7	74.3	74.8	84.6	55.9	77.7	133,976
Total or Median	100	100	100	100	100	100	128,040

Source: U.S. Census

Description of Aggregate Data Utilized/Lending Activity

Aggregate data, for HMDA- reportable lending performance purposes only, constitutes 229 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions, which have originated and/or purchased at least one residential mortgage and/or home improvement loan within the bank's assessment area (source: PCI Services, Inc., CRA Wiz). The total number of originations/purchases received by these lenders in calendar year 2000 was 1,746. The top five lenders (in descending order) within Hometown Bank's assessment area in 2000 were: Sovereign Bank, 114 loans/6.5 percent share; Fleet National Bank, 93 loans/5.3 percent share; Webster Five Cents Savings Bank, 67 loans/3.8 percent share; North American Mortgage Co., 60 loans/3.4 percent share; and Ohio Savings Bank, 58 loans/3.3 percent share. Hometown Bank ranked 12th with 36 loans and a 2.1 percent share.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

Hometown Bank's net loan to total deposit ratio appears to be reasonable and, as such meets the standards for satisfactory performance.

An analysis of Hometown Bank's net loan to total deposit ratios was performed. The calculation incorporated eight quarters of the bank's net loans to total deposit figures as reflected in the bank's quarterly FDIC Call Reports. The quarters reviewed included the periods from March 2000 through December 2001. The bank's average net loan to deposit ratio for this time period was 76.0 percent. This ratio has fluctuated from a low of 72.2 percent in September 2001 to a high of 81.7 percent in March 2000.

The following illustrates Hometown Bank's net loan to deposit trends.

Hometown Bank's Loan to Deposit Ratios*			
Ratio as of (Date)	Net Loans \$(000)	Total Deposits \$(000)	Ratio (%)
3/31/00	40,389	49,409	81.7
6/30/00	43,290	56,788	76.2
9/30/00	44,624	60,548	73.7
12/31/00	46,405	63,366	73.2
3/31/01	50,913	66,430	76.6
6/30/01	56,776	72,419	78.4
9/30/01	60,384	83,597	72.2
12/31/01	67,540	89,052	75.8

* Source: FDIC Quarterly Call Reports.

Over the period reflected in the table, Hometown Bank's net loans increased by 67.2 percent while deposits grew by 80.2 percent. From December 31, 2000, through December 31, 2001, the bank's loan portfolio increased by 45.5 percent, while deposits grew by 40.5 percent.

The growth in both the bank's loan portfolio and deposits are directly correlated to the opening of the Oxford branch/Corporate Headquarters in June 2000. This office is very visible and located on a main thoroughfare; unlike the bank's traditional main office location that, although located in downtown Webster, is considered to be far less visible. Further, the bank's opening of its Sturbridge location in September 2001 has also added to the loan and deposit growth.

A comparison of Hometown Bank's loan to deposit ratio to that of other area financial institutions was also performed. As of December 31, 2001, Hometown Bank had total assets of \$98,532,000 and a net loan to deposit ratio of 75.8 percent. The net loan to deposit ratios of area institutions is reflected in the following table. Those institutions chosen for this analysis have a main office or branch location in Hometown Bank's assessment area. The data presented is as of December 31, 2001.

COMPARATIVE NET LOAN TO DEPOSIT RATIOS*		
Institution	Total Assets \$(000)	Net Loan to Deposit Ratios (%)
Commerce Bank & Trust	696,022	78.6
First Massachusetts Bank NA	6,616,462	101.9
Hometown Bank	98,532	75.8
Savers Co-operative Bank	285,191	89.3
Southbridge Credit Union	143,550	64.8
Southbridge Savings Bank	296,745	90.0
Webster First Federal Credit Union	334,433	89.6
Webster Five Cent Savings Bank	369,128	75.0

Hometown Bank's net loan to deposit ratio was also compared to peer group ratios as reflected in the December 31, 2001 Uniform Bank Performance Report (UBPR). The UBPR defines Hometown Bank's peer group as all FDIC insured savings banks having assets less than or equal to \$100 million. As reported in the UBPR, the bank's net loan to deposit ratio was 75.8 percent as compared to the peer group ratio of 82.7 percent.

Based on the aforementioned analysis, Hometown Bank has achieved a reasonable loan to deposit level given its capacity to lend and the credit needs of its assessment area.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Hometown Bank's percentage of lending activity within its assessment area is considered to be adequate. Consequently, this lending criterion is considered to meet the standards for satisfactory performance.

An analysis of Home Mortgage Disclosure Act (HMDA)- reportable lending extended both inside and outside Hometown Bank's assessment area for the period under review was performed. For the purposes herein, the period under review for HMDA reportable lending constitutes calendar years 2000, and 2001. A HMDA reportable loan is defined as home purchase loans (including originations, purchases, and refinances) as well as home improvement loans.

The following table illustrates Hometown Bank's level of HMDA reportable lending both inside and outside its assessment area.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area												
Year	Inside				Outside				Total			
	Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)	
	#	%	\$	%	#	%	\$	%	#	%	\$	%
2000	36	56.3	3,943	55.1	28	43.7	3,220	44.9	64	100	7,163	100
2001	88	67.7	10,614	70.1	42	32.3	4,539	29.9	130	100	15,153	100
Total	124	63.9	14,557	65.2	70	36.1	7,759	34.8	194	100	22,316	100

Source: HMDA LAR, CRA Wiz

As indicated, Hometown Bank granted the majority of the number and dollar volume of its HMDA-reportable loans to those communities within its assessment area. According to the analysis, 63.9 percent of the number of loans and 65.2 percent of the dollar volume of loans or \$14.5 million was made within the assessment area.

In 2000, the majority of the number and dollar volume of loans was granted in the Town of Webster, where the bank maintains its main office. By number, the bank granted 21 loans or 58.3 percent in Webster. By dollar volume, the bank granted \$2,201,000 or 55.8 percent in Webster. In 2001 however, the majority of the number and dollar volume of HMDA reportable loans was granted in the Town of Oxford. This demonstrates the impact of the new branch/Corporate Headquarters. By number, the bank granted 35 loans or 39.8 percent in Oxford and 29 loans or 33.0 percent in Webster. By dollar volume, the bank granted \$3,442,000 or 32.4 percent in Oxford and \$3,373,000 or 31.8 percent in Webster.

As discussed in the Performance Context of this Public Evaluation, Hometown Bank achieved a ranking of 12th in market share (out of 229 lenders) for its HMDA reportable lending in 2000. Therefore, given the size and the resources available to Hometown Bank and the improving trend in 2001, the level of HMDA reportable lending within its assessment area is considered satisfactory

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

Hometown Bank's distribution of HMDA-reportable loans within its assessment area to borrowers of different incomes is considered to be average. The bank is found to meet the standards for satisfactory performance for this criterion.

An analysis of HMDA reportable lending extended within Hometown Bank's assessment area among borrowers of various income levels for the period under review was performed. Originations were categorized by the ratio of the applicant's reported income to the 2000, and 2001 estimated median family income of the Worcester MSA (refer to the Performance Context Section).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate income is defined as income between 50 to 79 percent of the median family income. Middle income is defined as income between 80 and 119 percent of the median family income. Upper income is defined as income greater than 120 percent of the median family income.

The following analysis compares the distribution of HMDA-reportable lending by Hometown Bank to the distribution of lending by aggregate lenders in the Year 2000. In addition, it considers the distribution of lending in comparison to demographic data for each income level for years 2000 and 2001.

Distribution of HMDA Loans by Borrower Income By Number of Loans								
Median Family Income Level	% Total Households	Aggregate Lending Data (% of #)	2000		2001		Total	
			2000	#	%	#	%	#
Low	25.1	4.6		2	5.6	5	5.7	7
Moderate	16.8	17.8		4	11.1	13	14.8	17
Middle	22.1	27.7		13	36.1	28	31.8	41
Upper	36.0	31.5		12	33.3	36	40.9	48
NA	0.0	18.4		5	13.9	6	6.8	11
Total	100	100		36	100	88	100	124

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

It should be noted that those originations designated as not applicable are loans where:

- The borrowers' income was not taken into account when granting the loan; or
- The borrower is an employee; or
- The loan was purchased.

By dollar volume, Hometown Bank originated 1.6 percent of its HMDA reportable loans to low-income borrowers and 11.6 percent to moderate-income borrowers in 2000. The bank was slightly below 2000 aggregate levels, which indicated 2.8 percent and 13.8 percent for low and moderate-income borrowers, respectively. In 2001, the bank's percentages improved with 3.3 percent of the dollar volume going to borrowers of low-income and 14.8 percent to borrowers of moderate-income.

As indicated in the above table, Hometown Bank's percentage of the number of loans to low-income borrowers slightly exceeded the aggregate in 2000. However, the bank's lending to moderate-income borrowers was below that of aggregate for that year.

The bank's 2001 performance, by percentage, remained constant as far as borrowers of low-income and reflected improvement in the moderate-income category when compared to its 2000 performance.

In conclusion, Hometown Bank's level of HMDA reportable lending to borrowers of low and moderate-income is considered reasonable.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

Hometown Bank appears to have achieved an adequate penetration of its HMDA reportable lending in the three moderate-income census tracts within its assessment area. Therefore, the bank is found to meet the standards for satisfactory performance in this category.

An analysis of HMDA reportable lending extended in the various census tracts contained within Hometown Bank's assessment area was conducted. As previously stated, Hometown Bank's assessment area contains nine census tracts. Of those tracts, 33.3 percent are moderate-income and 66.7 percent are middle-income. The following table presents the bank's distribution of HMDA-reportable loans by census tract income level. In addition, the table also reflects demographic data on the percentage of owner-occupied housing units (per 1990 census data) in each of the census tract income categories as well aggregate lending data (excluding Hometown Bank) for 2000.

Distribution of HMDA Loans by Income Category of the Census Tract By Number								
Census Tract Income Level	% Total Owner- Occupied Housing Units	2000 Aggregate Lending Data	2000		2001		Total	
			% of #	#	%	#	%	%
Moderate	15.4	12.7	4	11.1	13	14.8	17	13.7
Middle	84.6	87.3	32	88.9	75	85.2	107	86.3
Total	100.0	100.0	36	100.0	88	100.0	124	100.0

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

As indicated above, Hometown Bank made a total of 13.7 percent of its HMDA loans in moderate-income census tracts, and 86.3 percent in middle-income census tracts. In 2000, the bank made 11.1 percent of its loans in moderate-income census tracts, in comparison to the aggregate with 12.7 percent. The majority of the bank's loans or 88.9 were made in middle-income census tracts, as were the aggregate's with 87.3 percent.

By dollar volume, Hometown Bank originated 8.4 percent of its HMDA reportable loans to the three moderate-income census tracts in 2000. This was below 2000 aggregate lending which was 11.1 percent within the moderate-income census tracts. In 2001, the percentage improved with 15.1 percent of the dollar volume going to the three moderate-income tracts.

The bank's percentage of the number of loans to the three moderate-income census tracts was slightly below the aggregate in 2000. In 2001, the lending to the moderate-income census tracts improved. Further, in 2000, the bank's lending to the middle-

income census tracts exceeded that of aggregate and surpassed the percentage of family households as of the 1990 census.

In conclusion, Hometown Bank's level of HMDA reportable lending to the three moderate-income census tracts within its assessment area is considered to be reasonable.

5. REVIEW OF COMPLAINTS/FAIR LENDING POLICIES AND PRACTICES

Hometown Bank received no CRA- related complaints for the period under review. The bank has a satisfactory record of implementing fair lending policies and practices. The following discussion is based on the guidelines of the Division of Banks' Regulatory Bulletin 2.3-101.

The institution's loan policy prohibits discrimination against all the prohibited classes listed under the Equal Credit Opportunity Act (ECOA). In addition, the policy establishes second review procedures. The bank also maintains a comprehensive CRA Statement that addresses training, community contacts, and Board of Directors' review of internal testing for fair lending and HMDA compliance.

Minority Application Flow

For the period reviewed, the bank received a total of 2 mortgage applications from various minority groups, representing 1.2 percent of all residential loan applications received from within its assessment area. The 2000 HMDA aggregate data indicated 3.5 percent of all the residential applications from within the assessment area were to minority applicants. Furthermore, Hometown Bank's minority applicants in 2000 represented 1.9 percent of all applicants. Refer to the following.

MINORITY APPLICATION FLOW*								
RACE	AGGREGATE DATA 2000		BANK 2000		BANK 2001		BANK TOTAL	
	#	%	#	%	#	%	#	%
Native American	7	0.2	0	0.0	0	0.0	0	0.0
Asian	17	0.6	1	1.9	0	0.0	0	0.0
Black	12	0.4	0	0.0	0	0.0	0	0.0
Hispanic	21	0.7	0	0.0	1	0.8	0	0.0
Joint Race	30	1.1	0	0.0	0	0.0	2	1.2
Other	13	0.5	0	0.0	0	0.0	0	0.0
Total Minority	100	3.5	1	1.9	1	0.8	2	1.2
White	1,645	58.3	48	92.3	116	97.5	164	95.9
NA	1,077	38.2	3	5.8	2	1.7	5	2.9
Total	2,822	100	52	100	119	100	171	100

The institution's minority application flow was also compared to the racial composition of its assessment area. As of the 1990 U.S. Census, the assessment area population was 46,100 of which 1,317 individuals or 2.9 percent were members of a racial minority.

Given the racial composition and the HMDA aggregate application data, the bank's level of attracting minority applicants is considered to be reasonable.

COMMUNITY DEVELOPMENT LENDING

In addition to the five criterion contained herein, the Division also reviewed Hometown Bank's community development lending. Refer to the following.

On October 25, 2001, Hometown Bank granted a \$1,080,000 loan for the construction and permanent financing of a two-story commercial building in Webster to house a dialysis center, a behavioral health center and physicians office space. This loan carried a \$280,000 guarantee from the Massachusetts Development Finance Agency. This building is located on the "campus" of a local, non-profit hospital that is both a significant employer and health care provider in the assessment area.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

HOMETOWN BANK, A CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **MARCH 29, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.

